

# Interim Public Retirement Systems Committee Presentation



## **Peace Officers' Retirement, Accident and Disability System (POR)**

Presented by:

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December 11, 2013



# Governance

- Board of Trustees
  - Commissioner of Public Safety – Larry L. Noble (Chairperson)
  - Treasurer of State – Michael Fitzgerald
  - Governor's Appointee – Chris Mayer, Actuary (Principal Insurance)
  - Active Member Representative – Trooper Robert Conrad
  - Retired Member Representative – Jack Wissler (Sergeant)
- *Iowa Code, 97A*
- *Iowa Administrative Code - 661*



## Active Membership

- Sworn peace officers of the Iowa Department of Public Safety
  - ☐ Division of Criminal Investigation
  - ☐ Division of Narcotics Enforcement
  - ☐ Division of Intelligence
  - ☐ Iowa State Patrol Division
  - ☐ State Fire Marshal Division

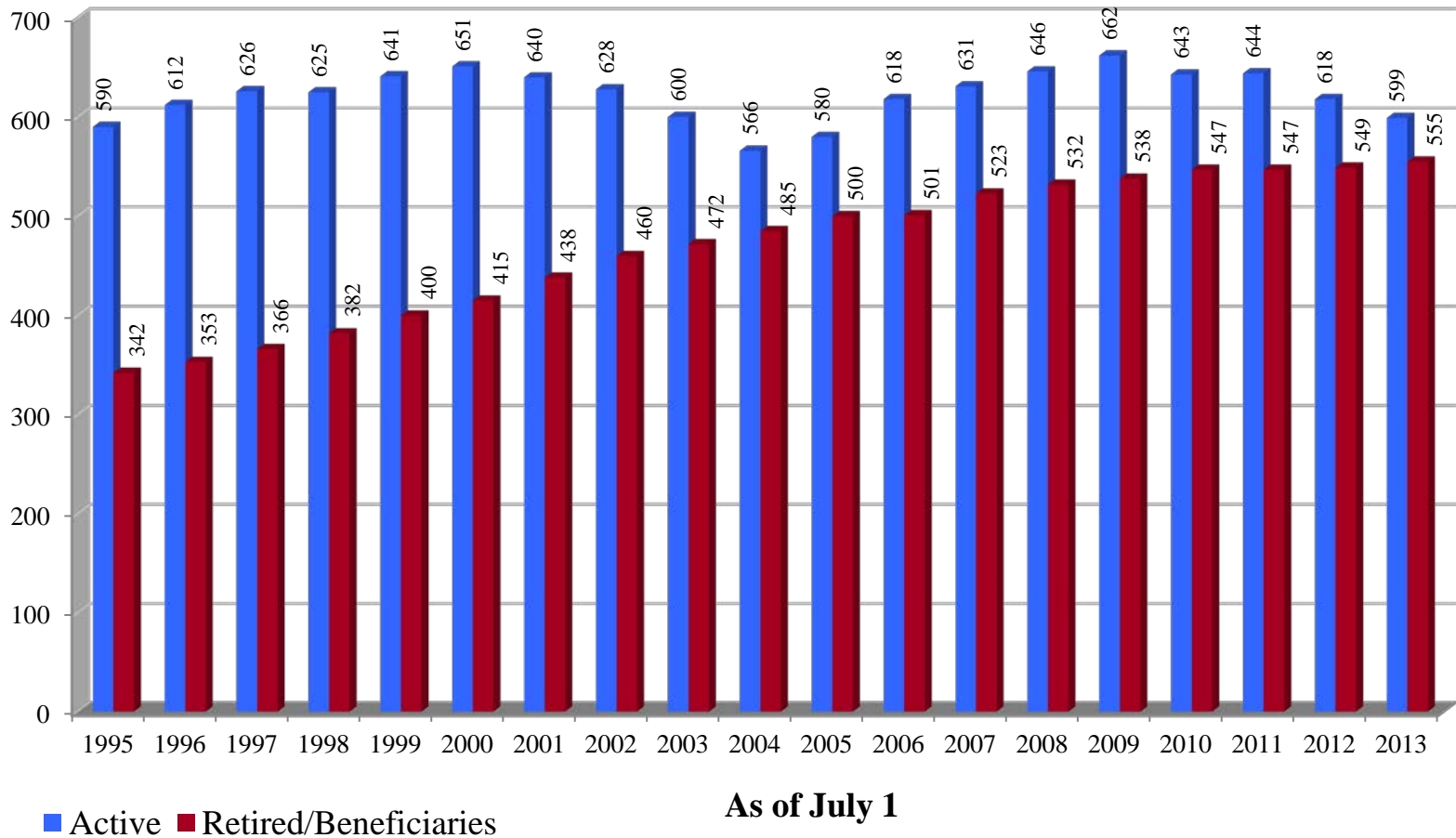


## Plan Overview

- Benefit based on years of service and highest 3 years of Average Final Compensation (bi-weekly pay + longevity + meal allowance)
- Service Retirement with 7 optional benefit selections
- Accidental and Ordinary Disability/Death Benefits
- Minimum benefit 60.5% of high 3 years, after 22 years of service and age 55. Increases by 2.75% per year, up to 32 years of service.
- Flat Escalator with a percentage based on a wage increase provided for active members of the same rank.
- Line of Duty Death Benefit of \$100,000
- Earnings while a member of POR are exempt from Social Security (if sworn after March 1986 must pay Medicare 1.45%)



# Peace Officers' Retirement Membership

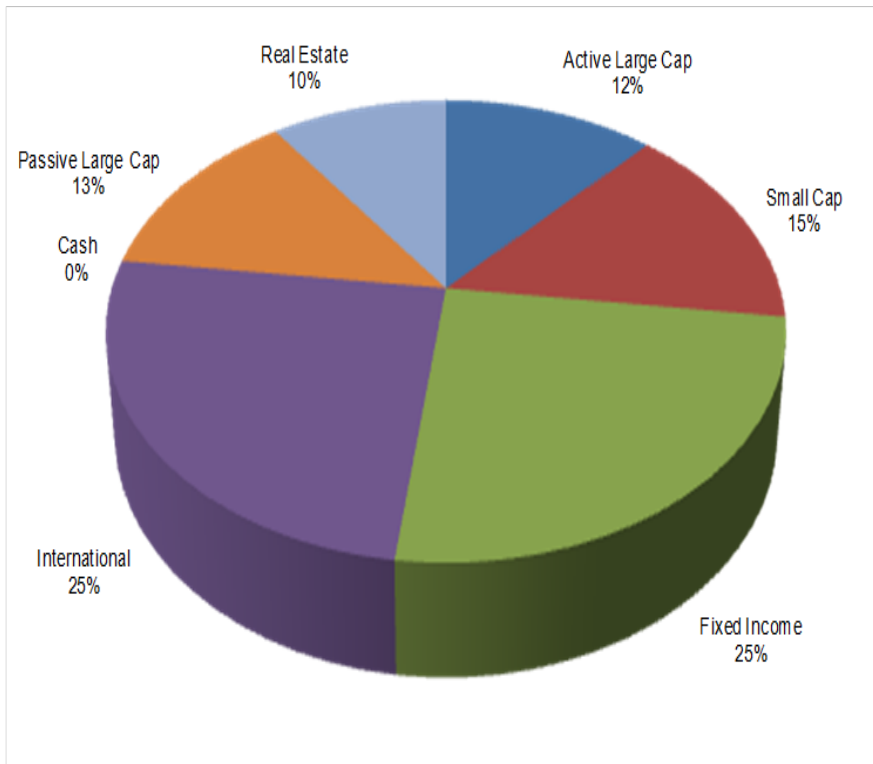




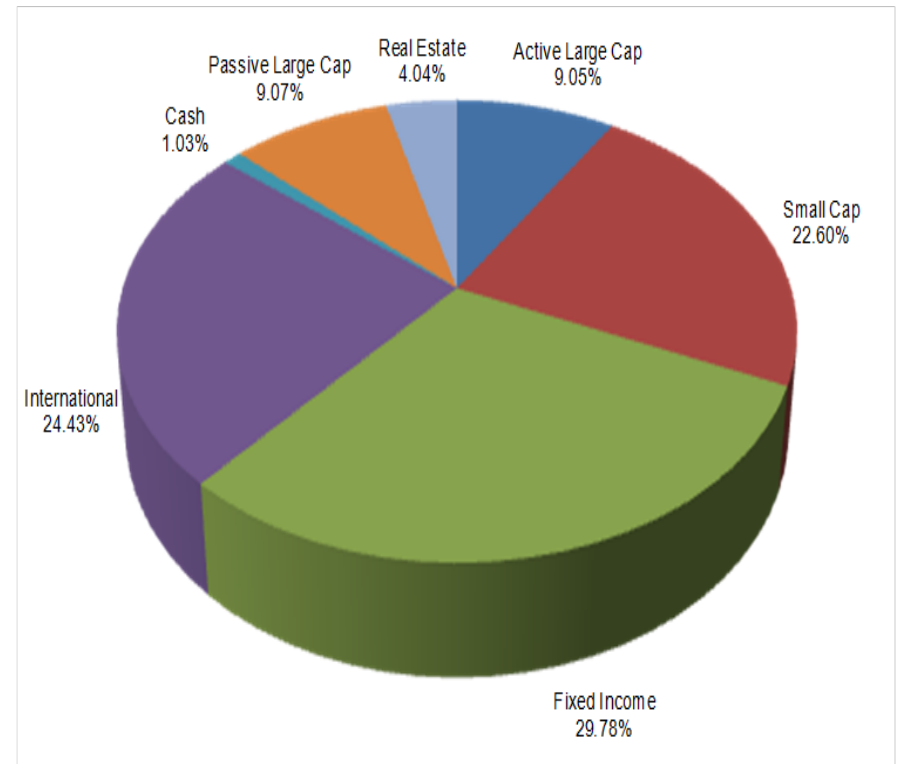
# Asset Allocation

As of 7/1/2013

## Target Allocation



## Actual Allocation





# Funding a Retirement Program



C = Contributions  
I = Investment Income

B = Benefits  
E = Expenses



# Actuarial Terminology

- Total Liability: value of all future benefit payments in today's dollars
- Normal Cost: allocation of Total Liability to current year of service worked by active members
- Actuarial Liability: Target asset value based on the financing mechanism, assumptions, benefit structure and membership



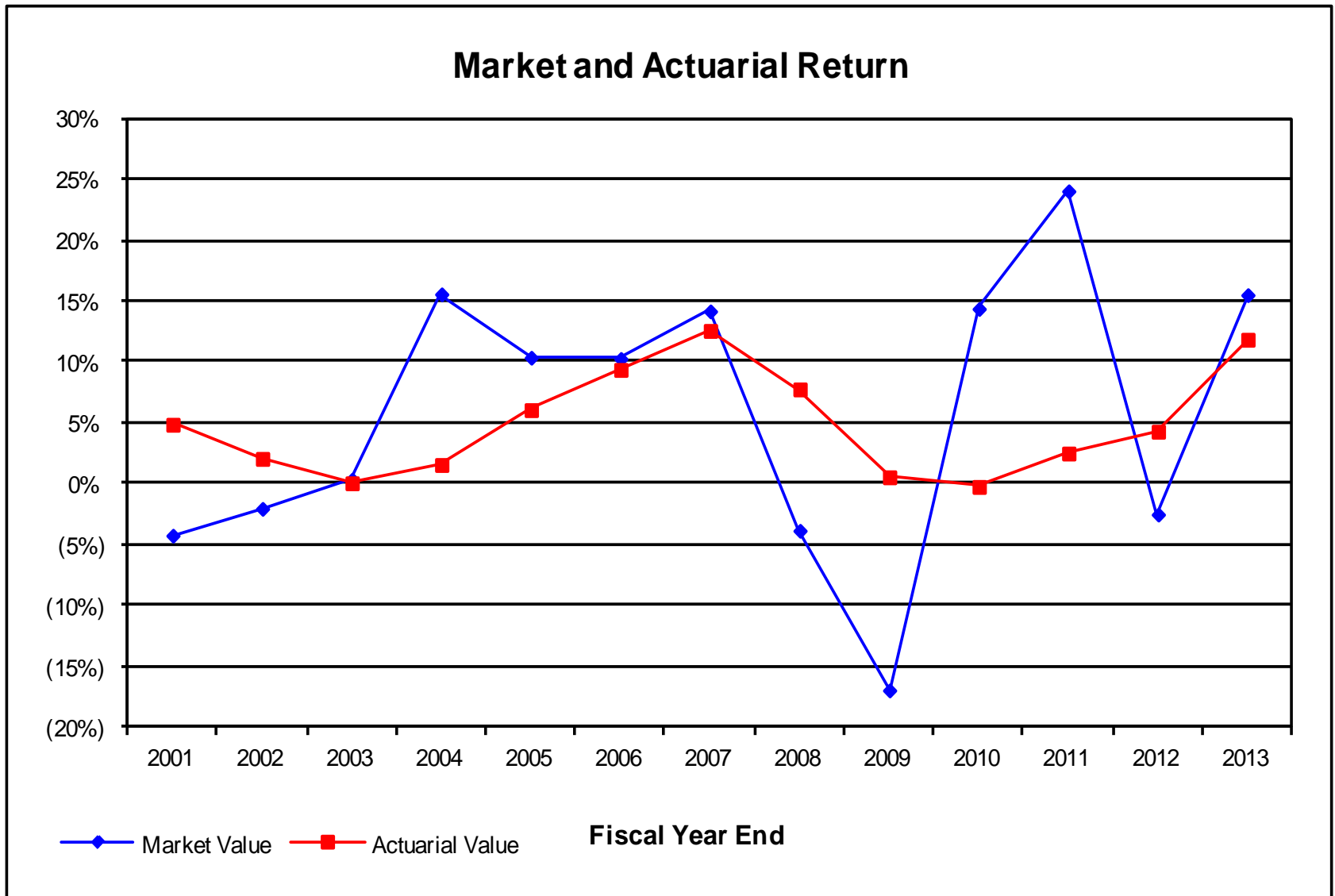
# Actuarial Terminology

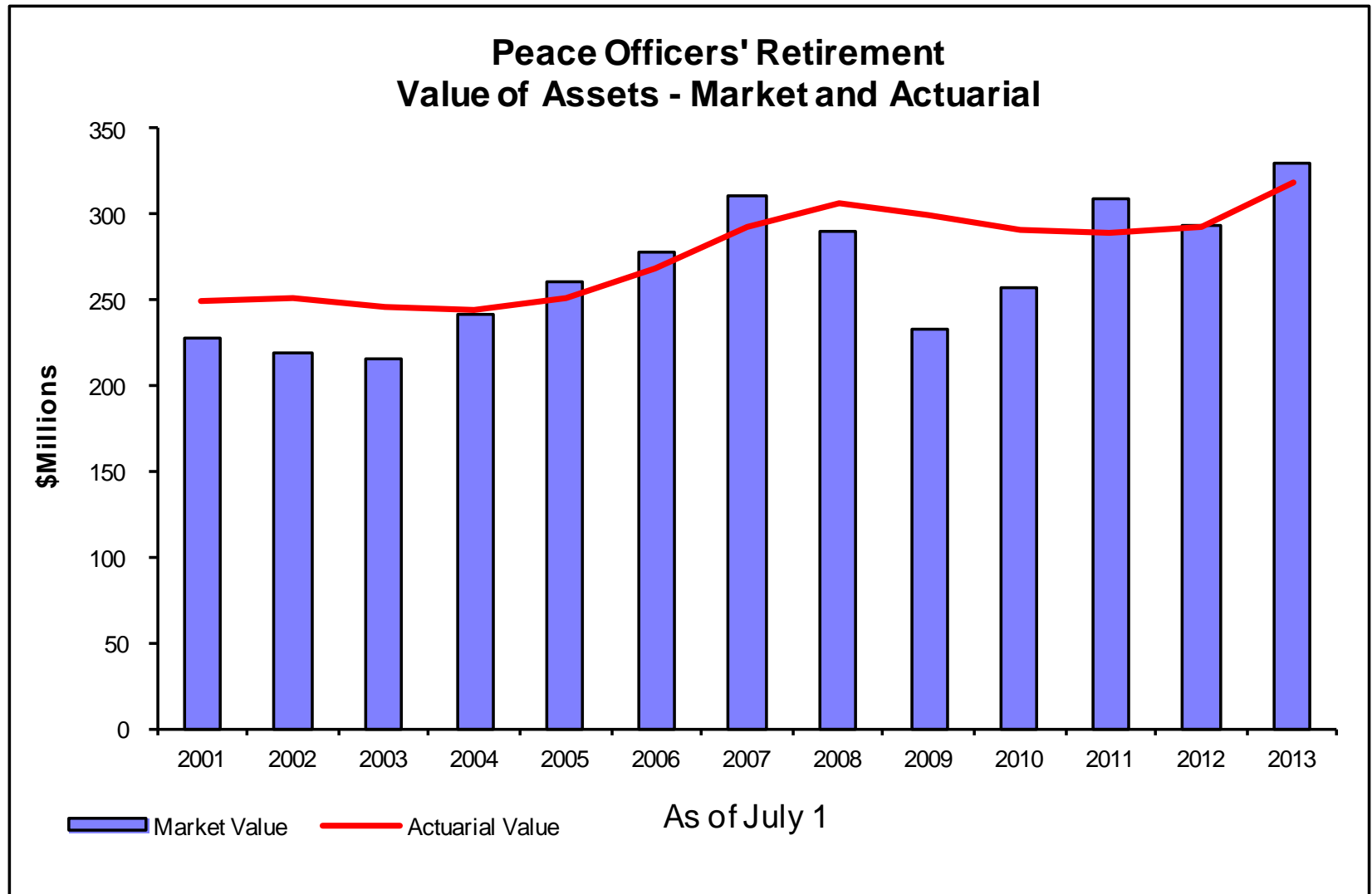
- Actuarial Assets: Smoothed value of assets used in the valuation process
- Unfunded Actuarial Liability (UAL): Actuarial Liability minus Actuarial Assets
- Actuarial Contribution Rate = Sum of Normal Cost and UAL Payment



# Actuarial Valuation Process

- Calculation of Liabilities (present value of future benefits)
- Allocate to past, current and future years of service
  - Past: actuarial liability (AL)
  - Current: normal cost
  - Future: future normal cost
- Calculate actuarial value of assets (AVA)
- Calculate unfunded actuarial liability  
( $UAL = AL - AVA$ )
- Actuarial contribution rate
  - Normal Cost
  - UAL contribution







## Key Measures (\$ in Millions)

	<u>As of July 1,</u>	
	<u>2013</u>	<u>2012</u>
Actuarial Liability	\$ 498	\$ 480
Actuarial Assets	<u>319</u>	<u>293</u>
Unfunded AL	\$ 179	\$ 187
Funded Ratio (AVA)	64%	61%
Market Value Assets	\$ 330	\$ 293
Funded Ratio (MVA)	66%	61%



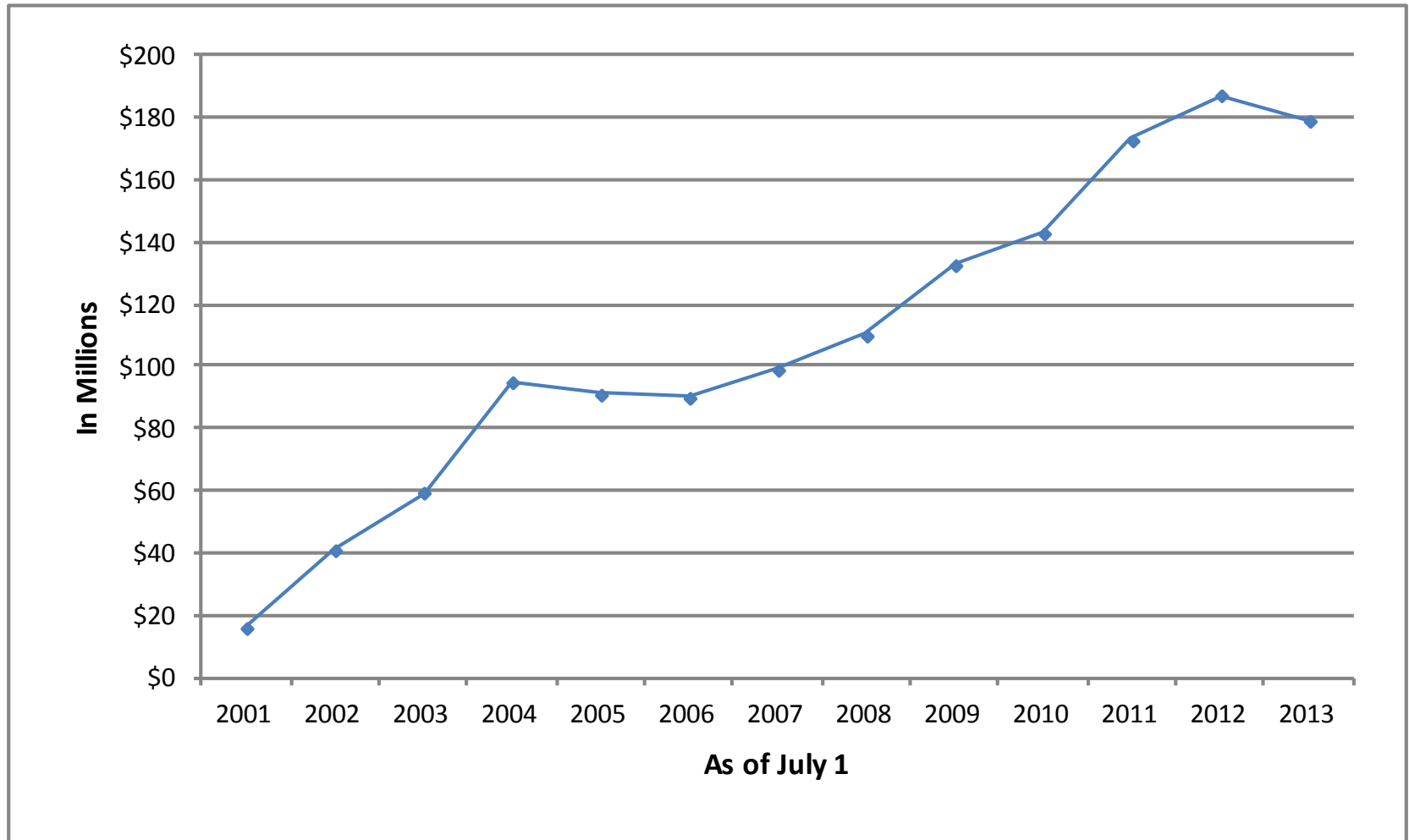
# Key Valuation Results

	<u>Fiscal Year Beginning</u>	
	<u>7/1/2013</u>	<u>7/1/2012</u>
Normal Cost	26.05%	26.22%
UAL Payment	<u>26.28%</u>	<u>26.92%</u>
Total Actuarial Contribution Rate	52.33%	53.14%
Member Rate	<u>(10.85%)</u>	<u>(10.35%)</u>
Employer Rate	41.48%	42.79%
State Fixed Contribution Rate	(29.00%)	(27.00%)
Supplemental Contribution*	(11.37%)	(0.00%)
<b>Shortfall</b>	<b>1.11%</b>	<b>15.79%</b>

\* \$5 million State supplemental contribution scheduled for the fiscal year.



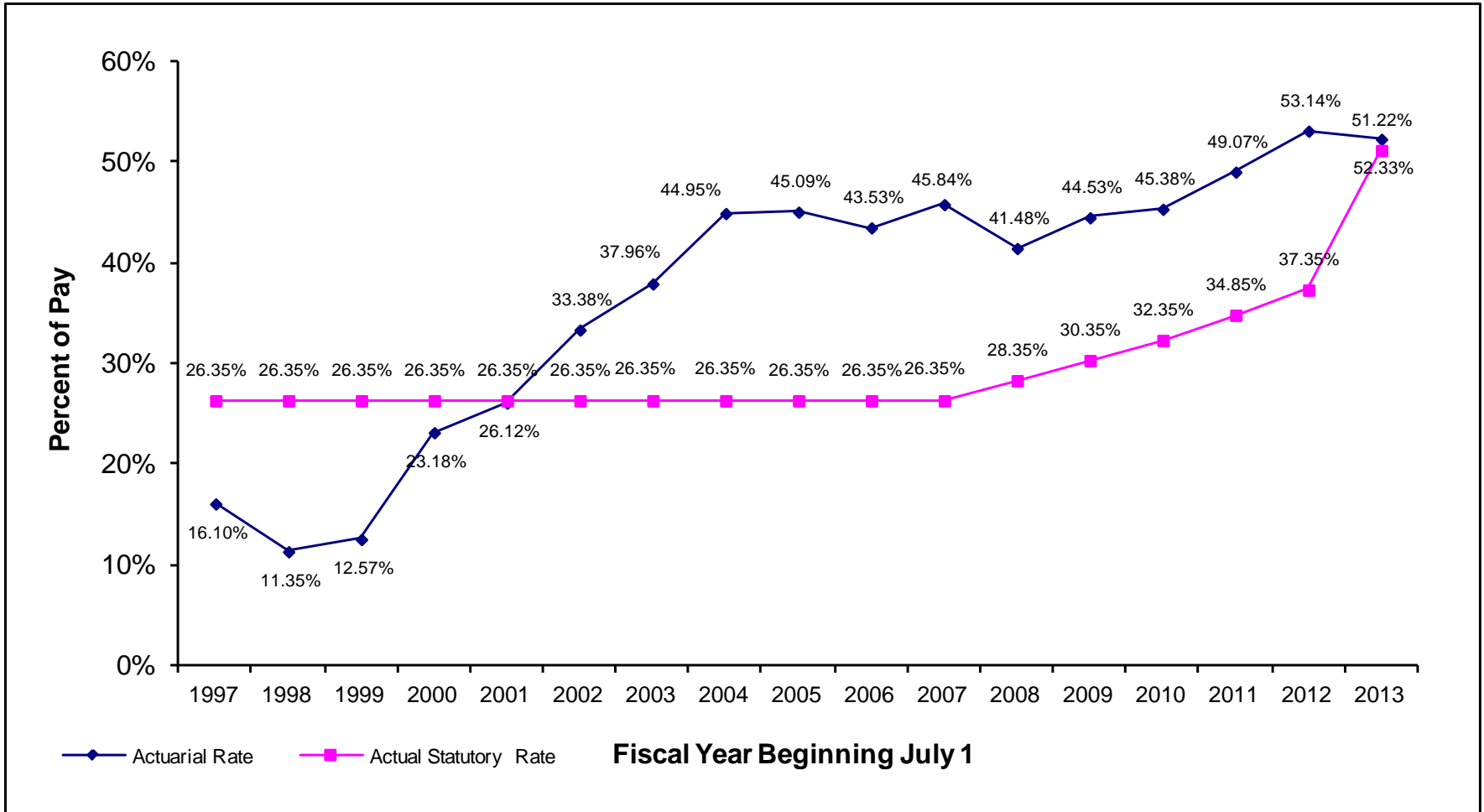
# Unfunded Actuarial Liability

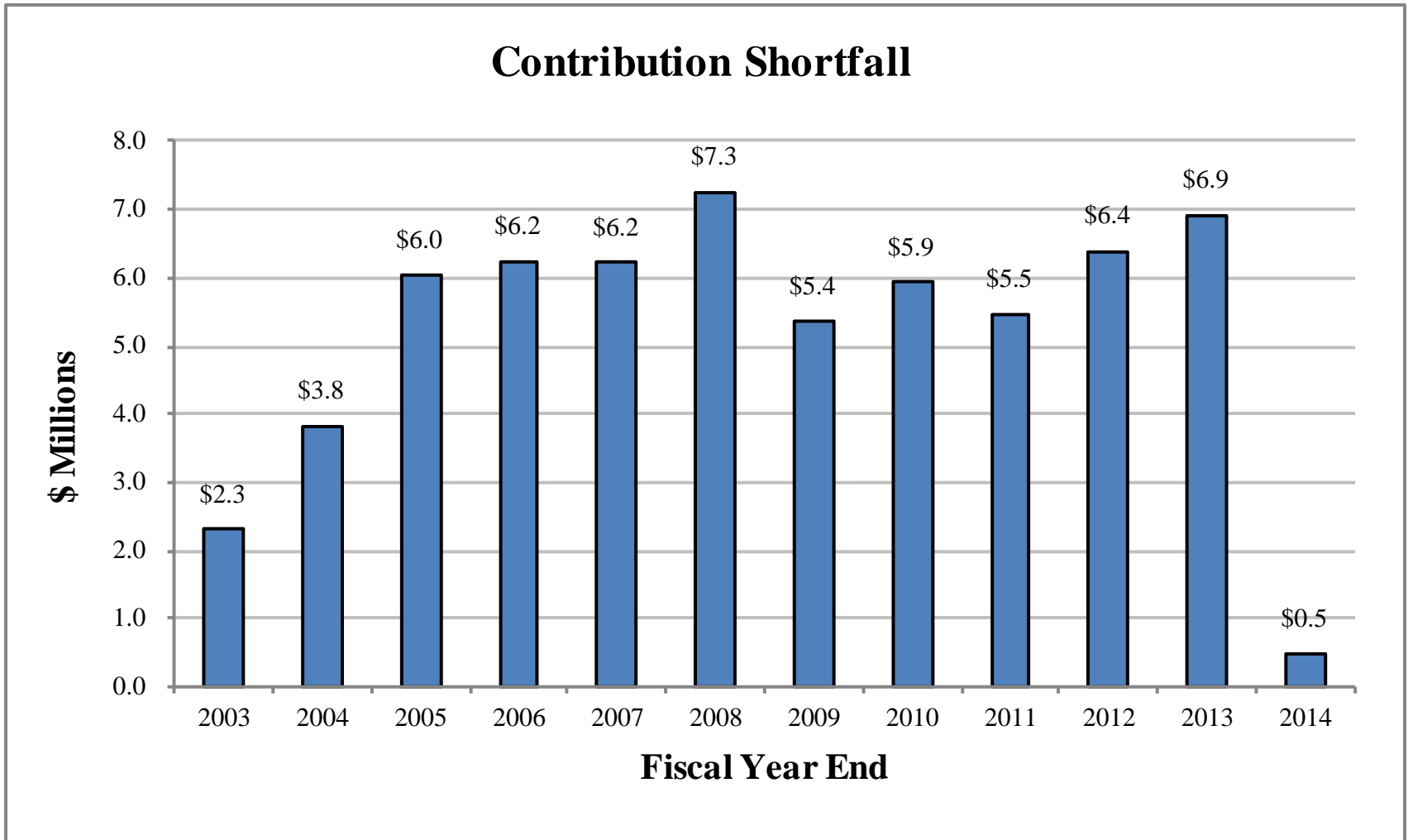


Prior to the 2008 valuation, the aggregate cost method was used which does not develop an actuarial liability. Therefore, the funded ratio was reported using the projected unit credit method per GASB Number 5.



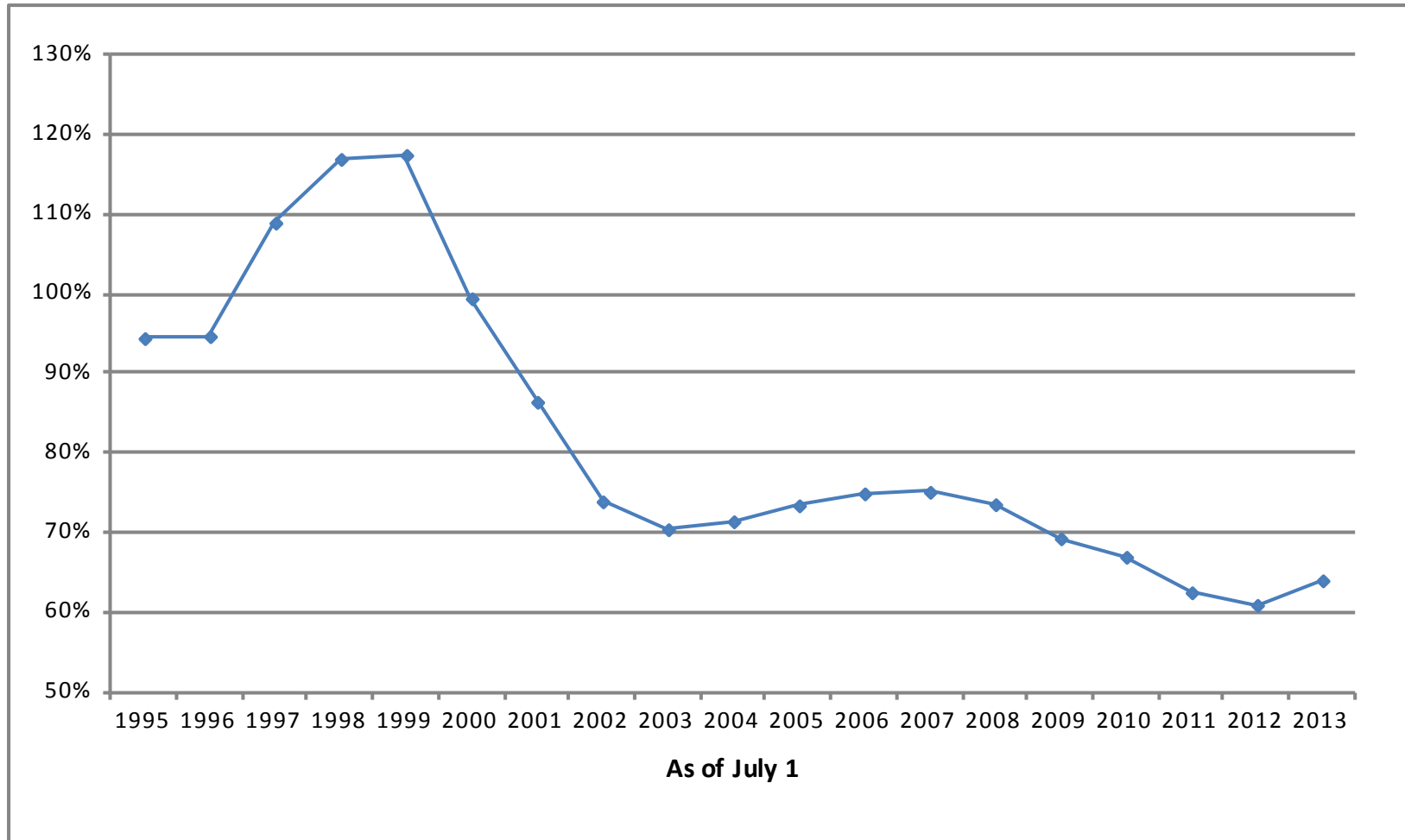
# Historical Contribution Rates







# Historical Funded Ratio



Prior to the 2008 valuation, the aggregate cost method was used which does not develop an actuarial liability. Therefore, the funded ratio was reported using the projected unit credit method per GASB Number 5.



# 2010 Session Changes

## ■ Benefit Structure

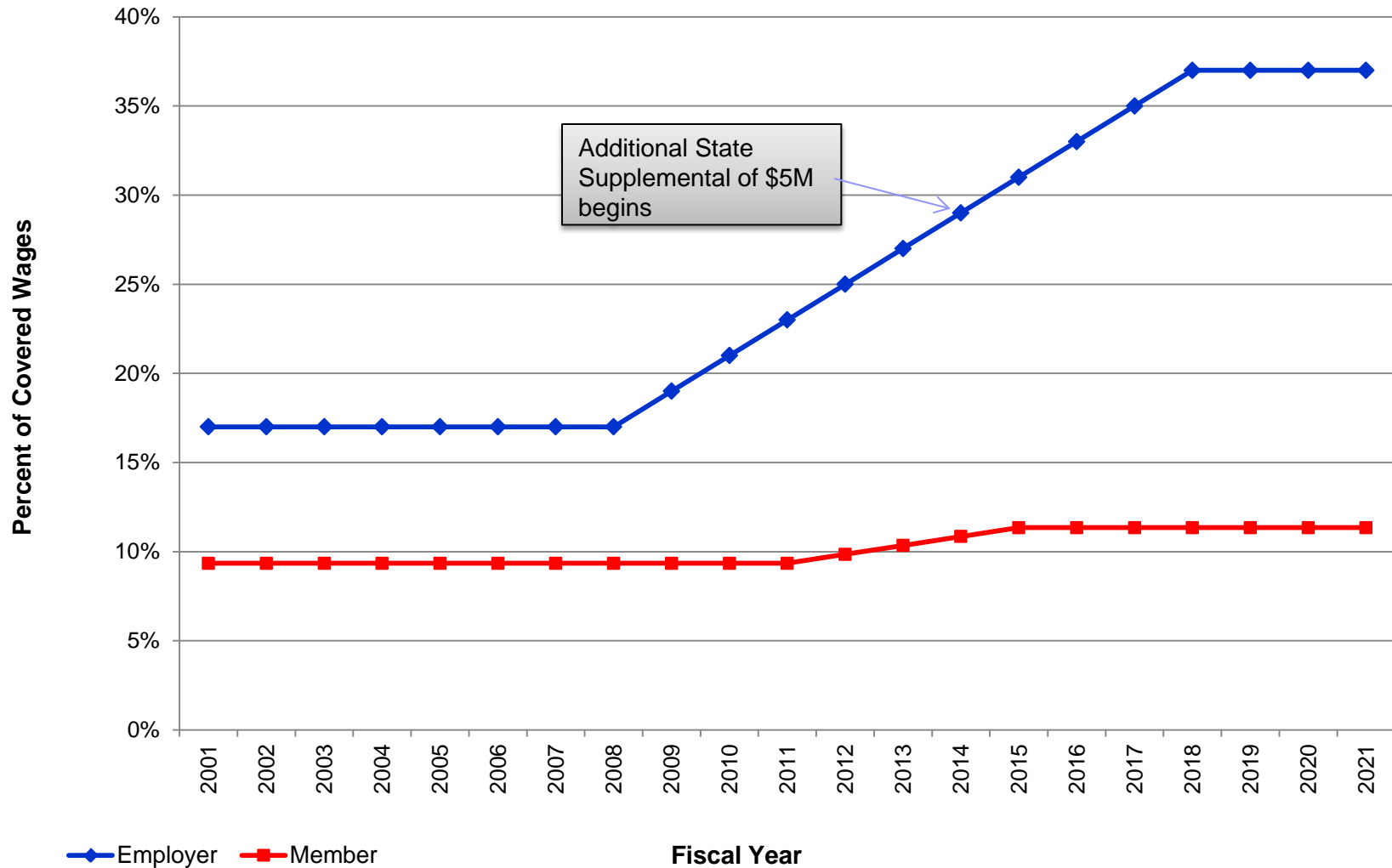
- Reduced the # of years disability retirement counted as service credit if restored to active duty to 2, rather than unlimited.
- Clarified the adjustment of pensions pursuant to 97A.6(14)(a)(2a), otherwise known as the flat escalator. Estimated impact on the required contribution rate of 2.24%, or an annual savings of \$940,000.

## ■ Contributions

- Extended the annual 2% increase in employer contribution rate from FY2012 to FY2017, increasing to 37% (up from 27%)
- Provided a supplemental general fund appropriation of \$5,000,000 beginning in fiscal year 2013 (extended to fiscal year 2014) until the funded ratio reaches 85%
- Increased the employee contribution rate by .5% points each year over the following four years, for a total of 2% (from 9.35% to 11.35%)

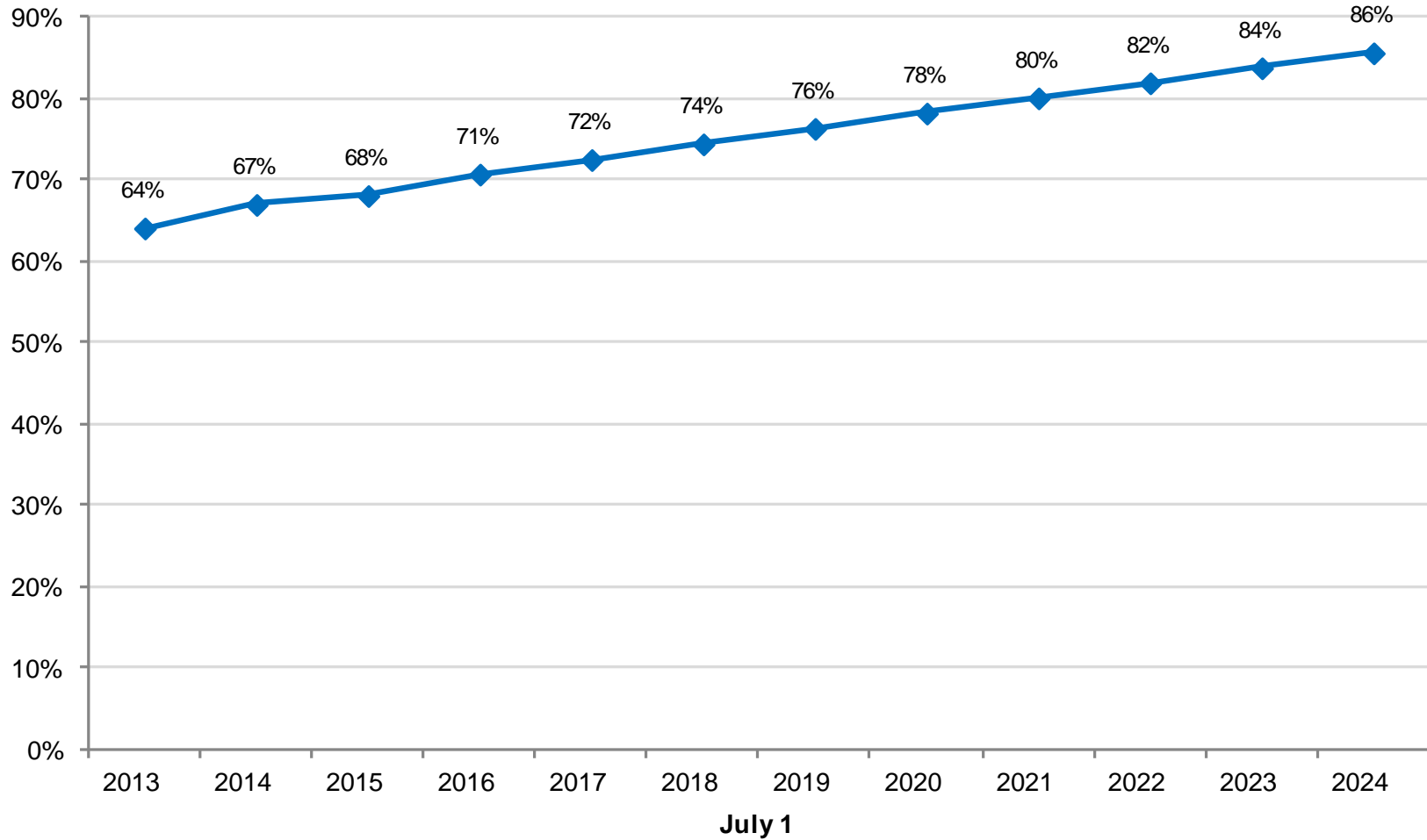


## Statutory Contribution Rates Fiscal Years 2001 - 2021





# Projected Funded Ratio



Note: Assumes all actuarial assumptions are met, including an 8% return on the market value of assets and all scheduled contributions, in statute, are made to the System.



# Comments

- Funded ratio remains low (64%), but long term funding outlook is positive
  - Assets earned over 15% return in FY2013
  - Market value of assets greater than the actuarial value
  - Additional contributions from the State of \$5 million annually begin FY 2014 and continue until 85% funded
- Long term financial health is dependent on investment return and contributions, including the supplemental payment of \$5 million
- Impact of higher contributions on funded ratio takes a long time to materialize in the valuation results



## New Language Request

The Peace Officer Retirement Board supports and recommends that the legislature enact a cancer and infectious disease presumption for POR members, with no retroactive application of benefits related to such presumption. This change is to be financed through an initial increase of .05% in the members' contribution rate, subject to change based on future reviews of actual costs, with no retroactive application of any revised rate.

***This change would not create any additional costs to the state.***